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THE ECONOMY: An unfavourable outlook for the next 18 months

The European Commission must revise its forecast downwards.

The economy is likely to grow more slowly than forecast and unemployment remains high between now and the end of next year, according to the European Commission, which has found it necessary to revise its forecast of last October in the light of recent trends in the world economy. Its Director-General for economic affairs, Massimo Russo, underlined the effects of a weaker dollar on the European Community's economic fortunes at a press conference. He also let it be understood that the Community countries could increase their prosperity if they would only bring their economic policies more into line with each other.

The Commission's latest forecast points to an unemployment rate of 11.8% for the 12-nation Community this year and in 1988, as against some 12% last year. The total number of jobs is not expected to rise by more than 0.6% this year and 0.5% in 1988.

The Commission now expects the EC economy to grow by just over 2%, as against the 2.8% it forecast last autumn. The Commission attributes this deterioration in the economic situation to the dollar's fall, which has proved sharper than forecast. Last autumn its experts estimated the dollar would fall by 5.5% in relation to the ECU in 1987; they have now revised this to 13.5%.

A weaker dollar has made Community exports to the United States more expensive, even while making U.S. exports cheaper, together with the exports of countries such as South Korea and Taiwan, whose currencies are linked to the dollar.

European companies, faced with shrinking exports, have cut back their investment plans. According to the Commission's forecasts of last October, investment in plant and machinery was to have increased by 6.8% this year; the current forecast is for a rise of no more than 5.3%. However, the recovery in the building industry, which began last year, should continue both this year and the next as forecast.

Mr. Russo believes that with consumer demand rising faster in the Community than in the U.S., the former is making a significant contribution to the solution of the problems of a world economy in difficulties.

SMEs: The beginnings of a European policy ...

... and proposals from the European Parliament.

Small and medium-sized enterprises (SMEs) are increasingly in the forefront of the preoccupations of the European Community's leadership. Last month the European Commission drew up the balance sheet, in a special report, of the measures taken since the adoption of the European Action Programme for SMEs last October. At about the same time the European Parliament adopted a resolution calling for the strengthening of European activities in favour of SMEs and the coordination of the national policies of the 12 member states.

In its report the Commission has stressed that it is trying to ensure that the development of SMEs is not hampered by regulations of all kinds. At the same time it is offering them a new range of services and seeking to establish cooperation between the EC's own institutions and the various bodies representing SMEs.

Since June 1986 the European Commission systematically evaluates the possible effects of its various proposals on the SMEs. If these effects are likely to be negative, the proposals are modified.

The Commission is presently setting up information centres for the SMEs, in order to inform them of the various possibilities the European Community offers them. The Commission has also undertaken a special information campaign aimed at the owners of SMEs, taking the form of some 100 workshops held in the four corners of the Community.

The SME action programme also includes loans which seek to stimulate investments, especially in areas of high technology, and the setting up of a cooperation network between European enterprises, the "BC-net".

The European Parliament has welcomed the growing interest of the authorities in the 12-nation Community for SMEs. Even so, it believes the current range of activities is both inadequate and badly coordinated. For the Euro-MPs all Community countries and organizations must first agree on a definition of SMEs, which excludes the subsidiaries of major companies.

Parliament wants national tax policies in favour of the SMEs harmonized and additional aid given in the less favoured regions. It also favours a legal status for subcontracting which is European in character and regular meetings of the ministers dealing with SMEs in the member states.

### THE REGIONS: Disturbing inequalities

The European Commission's first report on the Community's regions.

Portugal's per capita income is half the European Community average, while Spain's unemployment rate is twice the Community average. These are the kinds of problems highlighted by the European Commission's report on the situation in the regions of the 12-nation European Community. The third of its kind, the report is the first to cover all twelve member states.

The regions with problems are to be found in the Community's southern and western extremities for the most part. The central and northern regions enjoyed the highest per capita incomes, at purchasing power parities, in 1985, while the lowest were the lot of Greece, the Italian Mezzogiorno, Portugal and Ireland.

Unemployment is hitting the Community's southern and western regions the hardest. Nearly all which had rates in excess of 13.4% (as against a Community average of 10.8% in 1986) were to be found in the Mezzogiorno, Spain, Ireland, Northern Ireland, Scotland and Wales.

The report underlines the fact that regional disparities are much greater today than in the earlier 10-member Community. These disparities, moreover, are much more marked than in the United States: they are twice as high as in the U.S. in the case of incomes and three times as high as regards unemployment rates.

Population trends are sharpening regional disparities. One in five of the Community's inhabitants currently lives in an economically backward region. But it is in these very regions that population is expected to increase four times faster than elsewhere in the Community, according to Commission forecasts. By 1995 some 50% of young European job seekers will come from these regions.

The Community's southern and western regions are handicapped when it comes to economic growth and job creation because of an inadequate infrastructure, including insufficient means of communication and an excessive dependence on agriculture. Some more central regions, those in Belgium, France and England in particular, also have high unemployment rates because of the decline in traditional industries.

### THE REGIONS: A challenge for the EC's political leadership

The European Commission calls on the Twelve to reduce the disparities between countries and between regions within the same country.

To meet successfully the challenge posed by regional disparities within the European Community, the Twelve must pursue an "energetic and effective" European regional policy and do a better job of coordinating their national regional policies. This is the political conclusion reached by the European Commission after its recent survey of the situation in the regions of the 12-nation Community (see p. 4).

In the present context the role played by the Community's regional aid programme is essentially one of topping up the aid from other sources. The Commission insists that it is up to national governments, in the first place, to take the measures needed to reduce regional disparities.

The aid provided by the European Regional Development Fund (ERDF) amounts to no more than 7% of the Community budget in 1986, which itself represents only 1% of the total wealth produced in the 12-nation Community. ERDF backing for infrastructure investments does not amount to even 5% of all such investments in the regions which are being aided by national and regional authorities. The proportion is roughly the same as regards ERDF support for private sector investments.

In the 12-nation Community as a whole the EC's contribution to investments is marginal: it came to just 0.25% over the period 1983 to 1985. Even so, this "European" finance plays a more significant role in certain regions. Over this same period it accounted for 3% of the investments in Greece, 2% of those in Ireland and in the Italian Mezzogiorno and 0.5% of those in the U.K.

Help from the Community's Social Fund, roughly equal in importance to that provided by the ERDF in 1986, is also playing a part in reducing regional disparities. The five most disadvantaged member states receive 60% of the funds for training programmes.

However, the common agricultural policy tends to increase regional disparities, to the extent that much of the aid (over ECU 4,000\* per person per year) is going to the Community's northern and central regions. The Mediterranean regions, as well as Ireland, usually receive no more than ECU 2,500 per person.

\* 1 ECU = UK£ 0.70 or IR£ 0.77.

### EDUCATION: The fight against illiteracy

There are more illiterates in Europe than one would think.

It is hard to believe that there are people who can neither read nor write, given that attendance at school is compulsory for periods of up to eight years at least and that not only the press and public libraries but also advertising, comic books and schools of all kinds provide ample opportunity for acquiring the rudiments of an education.

One might even consider illiteracy in Europe to be a thing of the past. The fact is that tests given to recruits to the army in two highly developed countries which maintain conscription - France and Belgium - have revealed that some 5% of those called up are illiterate. The level of illiteracy in the population as a whole must be higher, for the studies in question are limited to adult males who are nationals of the countries in question.

The schools are not entirely to blame, even if they are not always up to the mark, and attendance, in any case, is irregular in some areas. A variety of factors are at work: the child's environment - that is to say the father's occupation and the family's social and cultural background; whether he lives in a rural or a mountainous region; the distance between home and school; health problems, especially those related to vision and hearing. Psychological factors also play a role, as well as indifference on the part of those around the child and little or no relationship between what the child learns at school and what he hears at home.

Clearly the fight against illiteracy cannot be waged only at school. It requires a global strategy, aimed both at preventing illiteracy at school and promoting adult literacy. This is especially important as it will prevent adults from both forgetting completely what they learned at school and exercising a negative influence on their children.

In this context the Council of Education ministers adopted a two-year work programme (1987-88) which includes a first colloquy in Athens in September as well as a follow-up study visit to Portugal.

Research will be successively carried out in pilot schools in several member states, in order to test some of the measures proposed at the level of nursery and primary schools as well as in the early years of secondary education.

Studies will be undertaken to find out the number of illiterates, the stages and circumstances of the progressive loss of their ability to read, write and do arithmetic after leaving school and to look into possible ways of helping them recover these skills.

EDUCATION: Dunces are no laughing matter for the European Community

The Social Fund spent nearly ECU 2 billion\* last year on training programmes for the under-25s.

Schoolchildren who fail at school are a luxury the European Community cannot afford. Its population today includes some 53m. young people between the ages of 14 and 25 and they are one of its most important assets. While many among them continue their studies, others prefer to start working.

Even so, some 25% of males and 33% of females are out of work. Very poor marks at school are part of the explanation, for they make it more difficult for some to find jobs.

Hence the need for serious thought on the subject at the Community level, so as to avoid a situation in which failure at school leads to a large number of school leavers who are unprepared for any kind of employment.

In recent years the European Community has invested large sums in youth training schemes. In 1986 alone the European Social Fund devoted ECU 1,900m. to such schemes. But it is essential, in the context of a programme aimed at making the transition from school to work easier, to take failure at school into account.

The Community's education ministers stressed this point when they met last month and asked for a memorandum on the subject from the European Commission. Failure at school is not only a traumatic experience in a young person's life but also a waste of resources. It can be partly remedied by help for schoolchildren in difficulties and improved teaching methods.

\* 1 ECU = UK£ 0.70 or IR£ 0.77.

TRANSPORT: Motorway tolls

A veritable labyrinth, not easily mastered.

There is no doubt that motorways on which tolls are charged are regarded by motorists as relicts of a feudal age. Despite the two centuries which have passed since the fall of the Bastille, the future of such feudal rights seems bright, especially in certain member states of the European Community.

Two Euro-MPs, the German Horst Seefeld and the Belgian Willy Vernimmen, have gone to the heart of the problem in the questions each has put separately to the European Commission. Both men are especially concerned that tolls are discriminatory and thus distort the conditions under which firms compete.

Replying on the Commission's behalf, the Transport Commissioner, Stanley Clinton Davis, has pointed out that generally speaking the firms which build motorways in France, for example, are granted concessions for a maximum period of 40 years. At the end of this period the motorways must be handed over to the national authorities, without benefit of payment of any kind, to be put at the disposal of motorists free of charge.

Unhappily the concessions can be renewed or extended, especially if improvements have been made or further work carried out. In any case, the first concessions will expire in France only after the year 2000. It must also be pointed out that the accounts of the companies involved are not always comparable, so that it is very difficult to determine their financial situation accurately.

The Commission therefore feels that the question of tolls should be looked at in the wider context of the tax system applied to transport in general. It is with the aim of eliminating distortions in competition in this field that the Brussels executive has sent the Council of Ministers a study of taxes on vehicles, fuel and motorway tolls. This study should serve as the basis for the reorganization of the entire sector.



CULTURE: Amsterdam, Europe's cultural capital for 1987

The programme includes the first European Film Festival.

The first European Film Festival will be held in Amsterdam this year. It is to become an annual event, to be organized each year thereafter in the city chosen as the European Community's cultural capital.

Carlo Ripa di Meana, the Commissioner with responsibility for cultural matters, underlined the importance of this new event in Europe's cultural calendar during the ceremonies inaugurating Amsterdam as this year's European cultural capital.

"After Athens and Florence", Mr Ripa di Meana noted, "it is the turn of a north European city, one in which the deep current of European identity can be detected readily in every aspect of political, economic and cultural life".

The programme for Amsterdam will offer numerous occasions to reflect deeply on European cultural issues, as seen from a Community viewpoint. Joint action in the cultural field seems increasingly necessary, if European culture is to develop and flower.

EMPLOYMENT: The handicapped also have a right to jobs

The Commission will report to the Council on jobs for the handicapped.

Most European Community countries seem very handicapped when it comes to employment for the handicapped, given their inability to provide even the necessary statistics.

The Commission is aware of this, as Commissioner Alois Pfeiffer pointed out in his reply to the Belgian Euro-MP, Lambert Croux. Because of insufficient information as regards working handicapped people (whether holding down jobs or looking for them) it is not possible to say what is the level of unemployment among them. Since the 1983 report "The Handicapped and Their Employment", published by the Statistical Office, no fresh studies have been made.

The Commission has decided, therefore, to set up a working party made up of the senior officials who are responsible for drawing up the national reports, on the basis of which it will submit to the Council of Ministers a report on the implementation of the recommendations on the employment of the handicapped in the Community.

The Report has been requested for July 1988. It would be premature, therefore, either to supply information or to try to describe the situation in each member state as regards its efforts to improve its statistics.